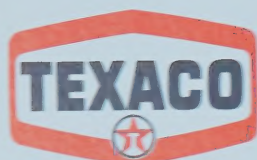


AR25

TEXACO CANADA LIMITED
1973
Annual Report





Texaco Canada Limited
90 Wynford Drive
Don Mills, Ont. M3C 1K5

Transfer Agents in Canada:

Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina,
Calgary and Vancouver

Registrars in Canada:

The Royal Trust Company, Montreal, Toronto,
Winnipeg, Regina, Calgary and Vancouver

**Transfer Agents and Registrars in the
United States:**

The Royal Bank of Canada Trust Company,
68 William Street, New York, N.Y.

The use in this report of such terms as
Texaco Canada, Company, organization,
we, us, our and its, when referring to
Texaco Canada Limited or to its
subsidiaries and affiliates either
individually or collectively, is only for
convenience and is not intended to be
an accurate description of corporate
relationships.

*On peut obtenir un exemplaire français
du présent rapport annuel en s'adressant
au secrétaire de la compagnie,
90 Wynford Drive,
Don Mills, Ont. M3C 1K5*

OFFICERS

D. FRASER BENTLEY,
Chairman of the Board
JOHN I. MINGAY,
President and Chief Executive Officer
O. C. CLEYN,
Vice-President, Eastern Canada
H. T. HUDSON,
Vice-President and Treasurer
J. E. KING,
Vice-President, Public Affairs
J. G. LIGHT,
Vice-President, Refining
J. L. MORRISON,
Vice-President and Assistant to the President
R. W. SPARKS,
Vice-President, Western Canada
J. C. WATTIE,
Vice-President and General Manager, Sales
J. R. C. BOYCE,
Secretary
D. L. WEST,
Comptroller

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COVER: This rig is shown drilling for
Texaco Canada on company acreage at
Albright in northwestern Alberta.

OPPOSITE: Semi-trailer train unit with
11,400-gallon capacity provides efficient
long-haul transportation of products from
refineries to bulk stations and major retail
outlets.

Highlights

Financial

	1973	1972*
Gross income	\$567,431,000	\$463,412,000
Net income.	\$ 55,367,000	\$ 42,439,000
Number of common shares outstanding	9,715,359	9,715,359
Net income per common share	\$5.68	\$4.35
Cash dividends paid on common stock	\$ 12,241,000	\$ 11,076,000
Cash dividends per common share.	\$1.26	\$1.14
Shareholders' equity (end of year)	\$309,635,000	\$266,659,000
Total assets (end of year)	\$500,290,000	\$426,814,000
Working capital (end of year).	\$ 81,191,000	\$ 62,656,000
Capital expenditures	\$ 30,961,000	\$ 30,608,000

Operating (Barrels daily)

Gross production of crude oil and natural gas liquids	41,324	32,017
Refinery runs	149,947	146,887
Petroleum product sales	193,347	176,381

* Restated to reflect the extension of the equity method of accounting to include all significant corporate joint ventures owned less than 50%.



To the Shareholders

Texaco Canada Limited experienced another year of growth and progress in 1973, despite the problems and uncertainties that beset the petroleum industry worldwide in the latter months.

Net income was \$55,367,000 or \$5.68 a common share, compared with \$42,439,000 or \$4.35 a share in 1972. Gross revenues totalled \$567,431,000, compared with \$463,412,000 in the previous year.

Gains were recorded in all phases of the company's activities. Gross production of crude oil and natural gas liquids averaged 41,300 barrels a day, a rise of 28.7%. Refinery runs of 149,900 barrels a day were 1.8% higher than in the previous year. Petroleum product sales averaged 193,300 barrels a day, an increase of 9.3%. These higher operating volumes contributed substantially to the improved earnings.

Dividends paid during 1973 amounted to \$1.26 a share, compared with \$1.14 a share in 1972.

Current income taxes, federal sales tax, municipal and other taxes paid by the company totalled \$82.2 million, equal to \$8.46 a share, compared with \$63.5 million, or \$6.53 a share in 1972. In addition, \$212.6 million in direct taxes on petroleum product sales were collected for provincial governments during 1973. The taxes accruing to governments as a result of the company's operations, therefore, totalled \$294.8 million—an amount more than five times the company's net income.

Increased taxes and royalties imposed by governments of oil exporting countries were reflected in the significantly higher costs of crude oil imported into Eastern Canada in the second half of the year which necessitated higher product prices.

The Canadian government requested the petroleum industry to adopt a voluntary freeze on both the wellhead price of Canadian crude oil and the wholesale prices of gasoline, home heating oil and diesel fuel, effective September 4, 1973. Texaco Canada agreed to support this program on the basis of the government's undertaking that subsequent increased costs of imported crude oil and products could warrant recovery of those costs through higher product prices. The freeze, which was to end February 1, 1974, was subsequently extended to April 1, 1974 to hold all petroleum product prices in Canada at the levels prevailing in January 1974.

The Canadian petroleum industry experienced continued growth in 1973.

Production of crude oil and natural gas liquids increased by some 17% to an average rate of 2.1 million barrels a day, compared with 1.8 million barrels a day in 1972. Crude oil exports, which averaged 1.2 million barrels a day in the first half of 1973, declined to less than 1 million barrels a day by year-end. This resulted primarily from the diversion of

domestic crude oil to Eastern Canadian refineries because of the decline in the availability of foreign supplies.

Domestic petroleum demand averaged approximately 1.7 million barrels a day, an increase of about 7% over 1972.

Natural gas sales of 6.3 billion cubic feet per day represented a modest increase over the 5.9 billion cubic feet in the previous year.

Reserves of conventional crude oil in Western Canada again declined in 1973, even though there was a considerable increase in exploratory and development drilling by the industry.

For 1974, present indications point to continued growth in activities by the Canadian petroleum industry. Production of crude oil and natural gas liquids is expected to average approximately 2.2 million barrels a day, an increase of about 3.5%. More rapid growth is being inhibited due to the declining productivity of many older fields. Because of the need for very substantial new discoveries, exploratory drilling in Canada should exceed the pace of 1973 if the economic climate is favourable. Domestic petroleum demand is forecast to reach a level of about 1.8 million barrels a day, an increase of almost 5%. Sales of natural gas are expected to increase to approximately 6.4 billion cubic feet daily, about 2% over the 6.3 billion cubic feet sold last year.

Looking further ahead, however, Texaco Canada—in common with the petroleum industry as a whole—is concerned about the continuing lack of clear, realistic public policies of a kind that are needed to encourage the financing, finding and development of this country's petroleum requirements.

It is virtually impossible to develop rational forward plans under these circumstances, and while the governments of Canada and the oil producing provinces continue to extract and divert funds which are essential to the investment requirements of the oil industry. The necessity for adequate capital investment incentives is not receiving sufficient attention and priority having regard to a need for risk capital that is of astronomical proportions. This capital is required for exploration, tar sands research and development, new refineries and distribution facilities that are needed to meet Canada's product demand. The costs of these projects have risen dramatically.

The preoccupation of the Federal and Provincial governments with current oil supply and distribution problems and with their own jurisdictional differences in matters relating to petroleum must not be allowed to obscure Canada's most fundamental requirement in the energy field: policies that will secure, in the most efficient manner, adequate long-term supplies of energy in the face of the growing demand and sharply rising costs of finding and developing new petroleum supplies.



D. FRASER BENTLEY



JOHN I. MINGAY

Proven recoverable reserves of conventional Canadian crude oil are declining, and the country is already eating into the lead-time required to develop the additional reserves that will be needed by the end of this decade. If government policies continue to curtail oil industry expectations of competitive prices, the necessary investment by the private sector will not be forthcoming. If that happens, Canada will change in a short period of time from its present position of national self-sufficiency—on balance—to one of a net importer of this essential energy resource.

There is a particularly urgent need, therefore, to allow petroleum prices to be determined once again by competitive market forces. This is the basis on which the Canadian petroleum industry has developed into one of the most successful and efficient energy supply systems in the world. The oil industry has been a cornerstone of Canada's economic growth since World War II; it will continue to meet the energy needs of Canadians most effectively if there is adequate investment incentive as well as freedom from unnecessary government interference with petroleum economics and distribution patterns.

In the belief that there will be an improvement in the political and investment climate in Canada that will encourage and sustain investment by the oil industry, Texaco Canada intends to increase sharply its overall capital expenditures and to double its outlay for petroleum exploration and development in 1974.

R. W. Sparks, Vice-President, Western Canada, Calgary was elected to the Board of Directors of Texaco Canada Limited, on July 20, 1973. J. E. King, formerly Vice-President, Ontario became Vice-President, Public Affairs, at the

company's Executive Offices in Don Mills. O. C. Cleyn, previously Division Manager, Quebec Division, was elected Vice-President, Eastern Canada, Montreal. Both changes were effective August 1, 1973. D. L. West, formerly Deputy Comptroller, was appointed Comptroller of the company, effective June 1, 1973. He succeeded F. D. Cunningham, who retired after 42 years of loyal and devoted service.

The statistics and commentary that follow provide a more complete summary of Texaco Canada's activities in 1973.

We are confident that with the continuing loyalty of its employees and support of its shareholders and customers, the company will successfully meet the challenges and opportunities that lie ahead.

D. Fraser Bentley
Chairman of the Board

John I. Mingay
President and Chief
Executive Officer

Don Mills, Ontario, March 25, 1974

Financial

Earnings

Consolidated net income of \$55.4 million in 1973 was 30.5% more than the 1972 earnings of \$42.4 million. Net income per common share amounted to \$5.68 compared with \$4.35 in the previous year.

Dividends

Cash dividends paid by the company on its common shares in 1973 amounted to \$12.2 million, equivalent to \$1.26 per share. This represented an increase of 10.5% over the \$11.1 million or \$1.14 per share paid in 1972.

Gross Income

Consolidated gross income for 1973 totalled \$567.4 million, a rise of 22.4% from the previous year's level of \$463.4 million. Gross income from sales and services was \$558.2 million compared with \$455.9 million in 1972. Income from investments and other sources contributed \$9.2 million to gross income compared with \$7.5 million in the previous year.

Costs and Other Deductions

Costs and other deductions, excluding taxes, amounted to \$426.2 million, an increase of 19.9% over the 1972 total of \$355.5 million.

Taxes

Current income taxes, federal sales tax, municipal and other taxes amounted to \$82.2 million in 1973. This represented an increase of 29.5% over the \$63.5 million in 1972. In addition, the company collected on behalf of provincial governments direct taxes on petroleum products amounting to \$212.6 million. This was 15.3% more than the \$184.4 million collected in 1972. The total of these taxes thus increased by 18.9% from \$247.9 million in 1972 to \$294.8 million in 1973.

Capital Expenditures

Capital expenditures of \$31.0 million in 1973 increased slightly over the previous year. The year-end investment, at cost, in property, plant and equipment was \$428.1 million, which represented an increase of 6.2% during the year.

From Left:
John R. C. Boyce,
Secretary;
John G. Light, Vice-
President, Refining;
R. W. Sparks, Vice-Presi-
dent, Western Canada,
and a Director;
Harry T. Hudson, Vice-
President and Treasurer.



Total Assets

The company's total assets at year-end 1973 amounted to \$500.3 million, an increase of 17.2% from the total of \$426.8 million a year earlier.

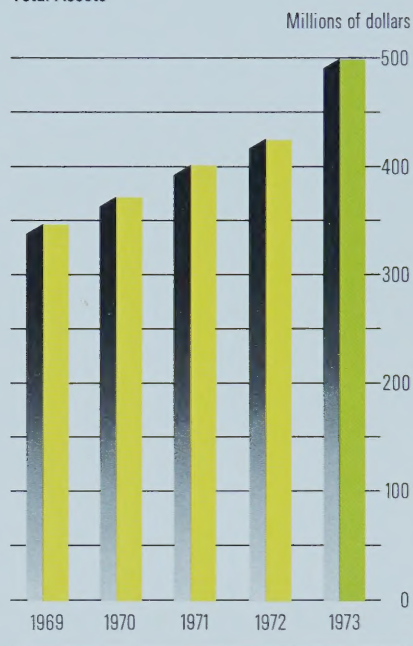
Working Capital

Working capital, at \$81.2 million, was 29.6% higher than the \$62.7 million reached at the end of 1972.

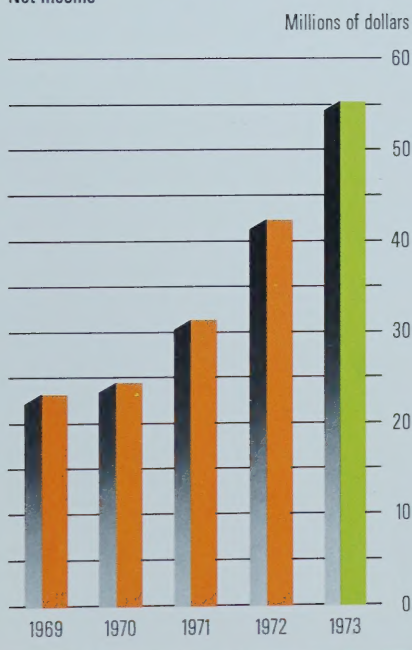
Long-Term Debt

The company's long-term debt, excluding payments due in 1974, amounted at year-end to \$10.1 million, compared with \$22.5 million a year earlier.

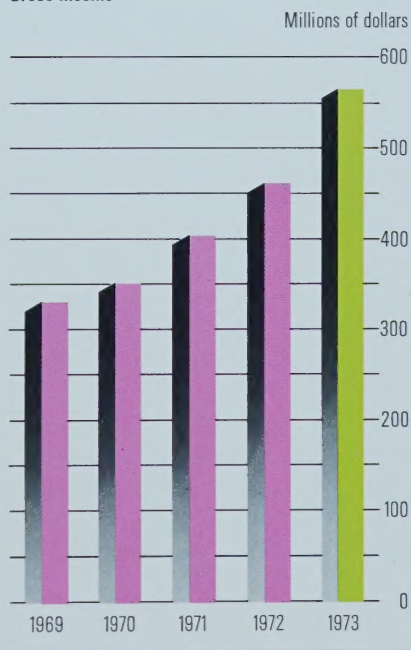
Total Assets



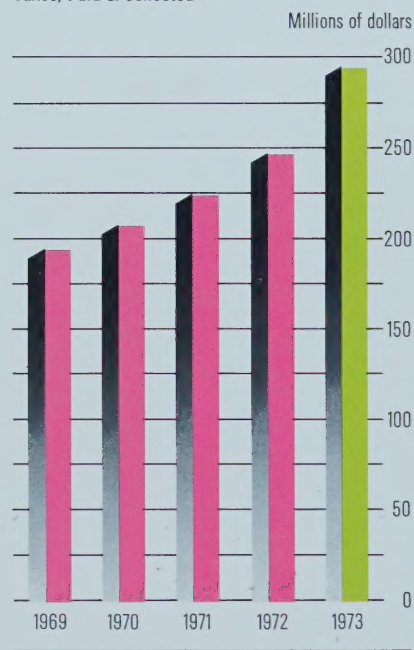
Net Income



Gross Income



Taxes, Paid & Collected



Review of Activities



Exploration and Producing

The company's gross production of crude oil and natural gas liquids averaged 41,300 barrels a day in 1973, an increase of 28.7% over the average of 32,000 barrels a day in the previous year. The increase resulted primarily from the installation of additional lifting and field processing facilities and from new wells placed in production to meet improved allowables for Alberta crude oil. The largest portion of the increase in production came from Swan Hills. Other sources of the higher output were the Bonnie Glen, Wizard Lake, Nipisi and Redwater fields.

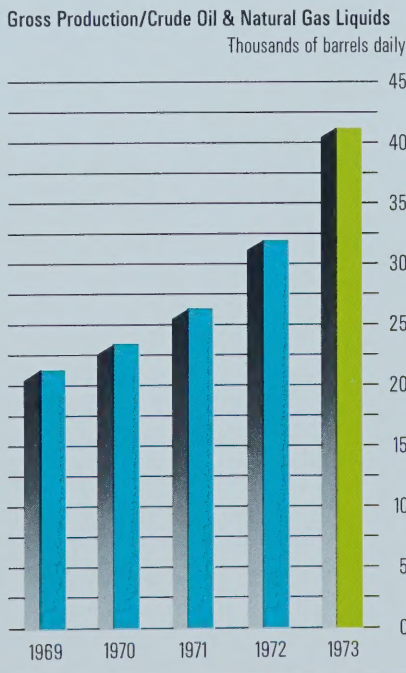
Land holdings were augmented through the acquisition of a petroleum and natural gas reservation at Wabat, Alberta, drilling reservations and leases at Valhalla, Alberta and North Cache, British Columbia, and drilling reservations at Klowee Lake and Fort Nelson, British Columbia. These acquisitions were offset by reductions resulting from lease surrenders at Cupar-Markinch, Saskatchewan, Muskrat, British Columbia and Tony Creek, Deer Mountain and Grande Valley, Alberta, as well as farmouts at Chipman and South Sunset, Alberta.

Net land holdings totalled 4,256,000 acres at year-end compared to 4,220,000 at the end of 1972.

Seismic crew working for Texaco Canada strings cable in Nicholson Peninsula on Arctic coast as the search for new reserves moves increasingly to frontier areas.

Texaco Canada's search for new reserves of oil and gas included participation in surveys in the Mackenzie Delta and off Richards Island in the Northwest Territories, and in the acquisition of seismic data in Alberta, British Columbia and the Arctic.

The company participated in the drilling and completion of 16 wells during 1973. This resulted in 9 oil wells, 2 gas wells, 1 water injection well and 4 dry holes. In addition, five wells were in various stages of drilling at year-end. These included an offshore well south of Newfoundland. In addition, 7 wells were drilled on lands in which the company holds a royalty interest. This activity resulted in 2 oil wells and 5 dry holes. One royalty interest well was being drilled at year-end. Total capital and exploratory expenditures for producing operations were \$4.9 million in 1973.



Refining

Texaco Canada's refinery runs averaged 149,900 barrels a day during 1973, up 1.8% from 146,900 barrels a day in the previous year.

Modifications were carried out at all four refineries during the year to increase efficiency and meet changing requirements.

At Montreal Plant the rated crude running capacity was raised to 73,000 from 66,000 barrels a day. Modifications are being made to process heavier crude oils in the plant. The fluid catalytic cracking unit capacity was increased with the replacement of a gasoline stabilizer and the installation of improved reactor cyclones. Expansion of the catalytic reforming unit resulted in improving the octane characteristics of gasoline so that less lead is required in its manufacture.

The rated capacity of the Port Credit Plant was raised to 46,000 from 42,000 barrels a day. Facilities for increasing the capacity of the catalytic reforming unit were close to completion at year end.

At Edmonton Plant, a single stage reactor cyclone in the fluid catalytic cracking unit was replaced by a two-stage cyclone for improved catalyst recovery.

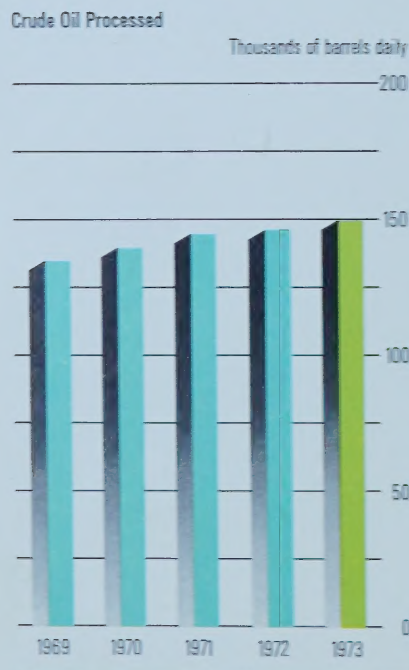
At Halifax Plant a new heater for the vacuum distillation unit was completed and the rated capacity of this refinery was raised to 17,500 from 16,000 barrels a day. Engineering is in progress which will result in a further increase in capacity to 20,000 barrels a day when completed in 1975.

The company announced in May 1973 a program to construct a new "grassroots" refinery at Nanticoke, Ontario, which will have a rated capacity of 95,000 barrels a day. Since then, engineering plans have been completed and bids received. Construction is expected to begin in 1974.

Labour disputes at the Port Credit and Toronto Blending and Grease Plants resulted in work stoppages during September and October. However, both plants continued to operate at capacity and no production was lost.

Environmental control continued to receive high priority at all manufacturing plants. At Port Credit refinery, for example, new equipment was installed to remove hydrogen sulphide from refinery fuel gas and recover marketable sulphur.

Capital expenditures for refining facilities amounted to \$8.6 million in 1973, compared with \$7.5 million in 1972.



OPPOSITE: Depropanizer tower installed at Edmonton refinery in 1973 improves gasoline quality through stabilization.



Transportation

Pipeline systems in which Texaco Canada has ownership interest were expanded and improved during 1973.

The capacity of the Portland-Montreal Pipe Line, 16% owned, was expanded to 550,000 from 536,000 barrels a day. This line carries imported crude oil to refineries at Montreal.

An expansion program was undertaken during the year to increase the capacity of the Federated Pipe Lines system, 50% owned, to 440,000 from 340,000 barrels a day. This system transports crude oil from the Swan Hills area of Alberta to Edmonton.

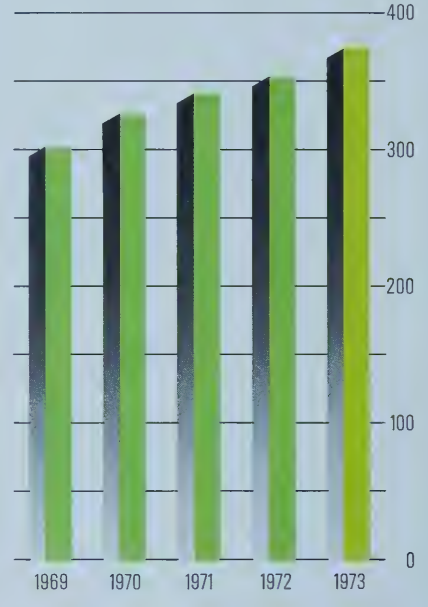
The Alberta Products Pipe Line Limited, 20% owned and which carries

products from Edmonton to Calgary, enlarged its system to 36,800 from 24,500 barrels a day.

Trans-Northern Pipe Line, one-third owned, reactivated a section of its pipeline to permit the movement of finished products from Toronto to Ottawa as a safeguard against possible disruption of crude supplies to the Montreal refineries. For a similar reason Texaco Canada moved some Canadian crude oil by tanker from Toronto to Montreal.

In 1973 the company transported a larger volume of crude oil and refined products by tanker, pipeline, railway car and motor truck than in any previous year.

Transportation of Raw Materials and Products
Thousands of barrels daily



Seated, from left: J. Cal Wattie, Vice-President and General Manager, Sales; J. Lee Morrison, Vice-President and Assistant to the President. Standing: Donald L. West, Comptroller; John E. King, Vice-President, Public Affairs, and Otto C. Cleyn, Vice-President, Eastern Canada.

Marketing

The company's sales of petroleum products averaged 193,300 barrels a day, an increase of 9.3% over 1972.

During 1973 the company continued to emphasize development of attractive and strategically-located new retail outlets. Fifteen new service stations were completed and 60 older stations were modernized. Car wash equipment was installed at 40 exist-

ing locations, resulting in improved service and higher gasoline volumes. Texaco representation on major highways was increased and improved.

Self-service was evaluated at test locations.

"La Porte du Nord", Texaco Canada's unique and picturesque service station—restaurant—boutique

complex on the Laurentien Autoroute, opened in 1973. It is the only service centre on the 57-mile limited access highway connecting Montreal with Quebec's northern resort area and serves the public around the clock.

Texaco Canada introduced a new travel card information system during the year which provides customers with prompt replies to inquiries and

Designed to harmonize with its picturesque national park setting, this company-owned retail outlet in Jasper, Alberta, was among 15 completed in 1973. The Jasper outlet serves a growing number of vacationers in summer, and skiers in winter.







improves handling of accounts receivable.

The operations of the company's two principal fuel oil subsidiaries in Ontario were consolidated into the marketing organization of Texaco Canada Limited in 1973. The change strengthened the company's identification as a national marketer of heating oils and equipment. In keeping with this objective, the network of distributors was expanded, providing greater service to customers and increasing heating oil sales.

Construction of marine facilities at Hay River in the Northwest Territories began late in 1973. When completed, the terminal will serve an area extending to the Arctic Ocean.

To make Texaco products more readily available in certain market areas, four new bulk stations were constructed. Relocation of a marine terminal at Sault Ste. Marie, Ontario, will be completed in mid-1974. Additional storage facilities were installed at bulk stations to provide for increased sales and to reduce transportation costs.

As part of its ongoing environmental protection program, the company continued to install oil spill prevention and control devices at bulk stations. Bottom loading facilities were installed at the Port Credit terminal to reduce vapour emissions.

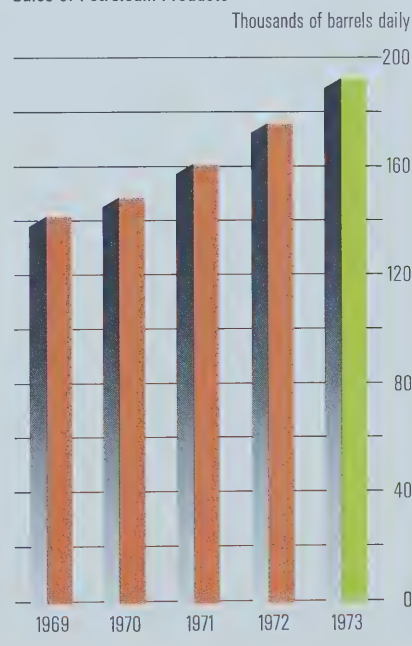
Texaco Canada's "La Porte du Nord", the only service centre on the 57-mile Laurentien Autoroute, opened in 1973. The strategically-located service station-restaurant-boutique complex serves customers travelling both directions on the limited access highway connecting Montreal with the year-round resort area.

Manufacture and delivery of refined and packaged products were maintained despite work stoppages at four locations.

A major study was undertaken to automate invoicing, accounts receivable and inventory control at the larger sales terminals by means of an on-line system connected to the central computer.

The company continued, through its promotional and training programs, to emphasize improved service to the motoring public through traditional Texaco service stations operated by independent retailers.

Sales of Petroleum Products



Employee Relations

Texaco Canada Limited and its subsidiaries had 3,705 employees at the end of 1973, the same number as at the close of the previous year. Payroll and employee benefit costs totalled \$48.2 million in 1973, compared with \$44.7 million a year earlier.

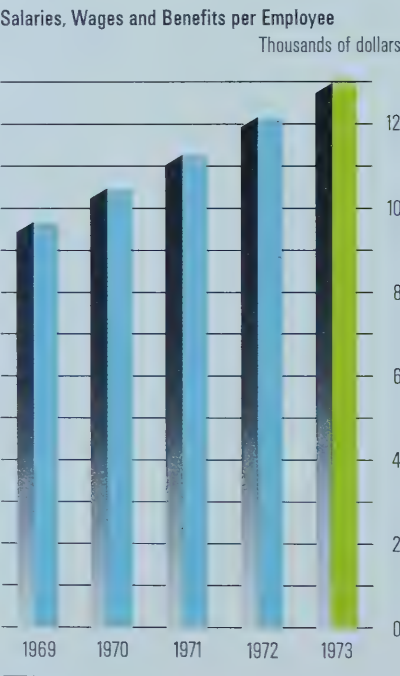
The company continued its many employee relations programs and activities in the fields of labour relations, compensation, employee benefits, manpower planning and development, and accident prevention.

As part of Manpower Planning and Development, management development courses were continued for designated employees, and performance appraisal programs were conducted to identify available talent and utilize it to best advantage. Tuition reimbursements were made to 164 employees under the Educational Assistance Plan.

The Merit Scholarship Award Program completed its eighth year with the granting of 20 scholarships to sons and daughters of employees. This brought to 141 the number of scholarships awarded under the academic requirements of the program which provides for payment of tuition and compulsory fees for a maximum of four years at any recognized Canadian university or college. Visits to 24 universities and technological institutes under the graduate recruitment program resulted in the hiring of 19 new employees.

The safety program received added emphasis through creation of a position responsible for the coordination of accident prevention and loss control on a company-wide basis. Safe Driver awards were presented to 671 employees of Texaco Canada and its subsidiaries. There were 11 winners of the 19-year pin, which is the highest award under the program instituted in 1954.

Ninety-seven employees received the 25-year service award in 1973. There were 479 active personnel with 25 or more years of company service at year-end. Forty-seven employees retired, bringing to 438 the number of former employees on pension at the end of 1973.



Public Relations

Sharply increased interest in the affairs of the oil industry and the company by the public, governments and the news media contributed to an acceleration in Texaco Canada's public communications activities in 1973.

The company made its views known to governments and the public on many matters of importance to Texaco Canada and the Canadian petroleum industry. These included the incentive needed to attract risk capital for petroleum exploration and development, the dangers inherent in government interference with the normal price-setting functions of the marketplace, oil export policy, Canadian crude oil supply and demand, and environmental control standards.

Shareholders, employees, retailers and others interested in the progress of Texaco Canada were kept informed through news releases and the company's own publications.

Active participation in organizations working for the protection of the environment was continued during the year.

By means of its program of corporate donations, Texaco Canada provided financial assistance to many causes in the fields of education, health, community service, culture and youth work in all parts of the country. In addition, company executives and personnel devoted much time and energy to community service and other worthy projects across Canada.

Consolidated Statements of Income and Retained Earnings

for the years ended December 31, 1973 and 1972

Texaco Canada Limited and Subsidiary Companies

	1973	1972*
Gross Income		
Sales and services	\$558,183,000	\$455,938,000
Income from investments (Note 1)	7,557,000	5,911,000
Other income	1,691,000	1,563,000
	<u>\$567,431,000</u>	<u>\$463,412,000</u>
Deductions		
Costs and operating expenses	\$330,763,000	\$269,899,000
Selling, general and administrative expenses (Note 4)	78,762,000	70,043,000
Depreciation, depletion, and amortization (Note 2)	15,548,000	13,641,000
Interest charges	1,134,000	1,891,000
**Taxes, other than income taxes	45,984,000	36,613,000
Provision for income taxes—current	36,230,000	26,873,000
—deferred	3,643,000	2,013,000
	<u>\$512,064,000</u>	<u>\$420,973,000</u>
Net Income for the Year	<u>\$ 55,367,000</u>	<u>\$ 42,439,000</u>
Net income per common share	<u>\$5.68</u>	<u>\$4.35</u>
Retained Earnings		
Balance at beginning of year— restated (Note 1)	\$229,545,000	\$198,332,000
Add—		
Net income for the year	55,367,000	42,439,000
Deduct—		
Dividends declared		
Preferred stock (\$4.00 per share in 1973 and 1972)	150,000	150,000
Common stock (\$1.26 per share in 1973 and \$1.14 per share in 1972)	12,241,000	11,076,000
Balance at end of year	<u>\$272,521,000</u>	<u>\$229,545,000</u>

* Restated to reflect the extension of the equity method of accounting to include all significant corporate joint ventures owned less than 50%. (Note 1)

** In addition, provincial motor fuel and oil taxes collected from consumers were paid or accrued in the amounts of \$212,613,000 during 1973 and \$184,392,000 during 1972.

See accompanying accounting policies and notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1973 and 1972

Texaco Canada Limited and Subsidiary Companies

	1973	1972*
Assets		
Current Assets		
Cash	\$ 11,198,000	\$ 20,467,000
Marketable securities—at cost	26,069,000	—
Accounts receivable	105,207,000	86,357,000
Inventories		
Crude and refined oil products and merchandise	68,243,000	46,246,000
Materials and supplies	1,455,000	1,285,000
Total current assets	<u>\$212,172,000</u>	<u>\$154,355,000</u>
Investments and Advances (Note 1)	<u>\$ 31,378,000</u>	<u>\$ 29,072,000</u>
 Property, Plant and Equipment, at cost		
Producing	\$ 84,403,000	\$ 80,970,000
Manufacturing	149,786,000	141,621,000
Marketing	188,007,000	174,983,000
Other	5,922,000	5,708,000
	<u>\$428,118,000</u>	<u>\$403,282,000</u>
Less: Accumulated depreciation, depletion, and amortization (Note 2)	<u>176,263,000</u>	<u>165,350,000</u>
Net property, plant and equipment	<u>\$251,855,000</u>	<u>\$237,932,000</u>
 Deferred Charges		
Premium paid on subsidiary companies' capital stock, less amortization.	\$ 2,785,000	\$ 3,125,000
Prepaid expenses and other deferred charges	2,100,000	2,330,000
Total deferred charges	<u>\$ 4,885,000</u>	<u>\$ 5,455,000</u>
	<u><u>\$500,290,000</u></u>	<u><u>\$426,814,000</u></u>

* Restated to reflect the extension of the equity method of accounting to include all significant corporate joint ventures owned less than 50%. (Note 1)

See accompanying accounting policies and notes to consolidated financial statements.

Texaco Canada Limited and Subsidiary Companies

	<u>1973</u>	<u>1972*</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable and long-term debt		
due within one year	\$ 3,520,000	\$ 3,831,000
Accounts payable and accrued liabilities		
Affiliated companies	47,222,000	29,967,000
Other	43,591,000	29,604,000
Sales, motor fuel and sundry taxes	24,629,000	17,611,000
Income taxes	11,981,000	10,648,000
Dividends payable	38,000	38,000
Total current liabilities	<u>\$130,981,000</u>	<u>\$ 91,699,000</u>
Long-Term Debt (Note 3)	<u>\$ 10,070,000</u>	<u>\$ 22,495,000</u>
Deferred Income Taxes	<u>\$ 49,604,000</u>	<u>\$ 45,961,000</u>
Shareholders' Equity		
Preferred Stock		
4% Cumulative redeemable preferred shares		
of \$100 par value (redeemable at Company's		
option at \$102.50 on thirty days' notice)		
Authorized—77,500 shares		
Issued —37,500 shares	<u>\$ 3,750,000</u>	<u>\$ 3,750,000</u>
Common Stock and Retained Earnings		
Common shares of no par value		
Authorized—14,926,578 shares		
Issued — 9,715,359 shares	\$ 33,364,000	\$ 33,364,000
Retained earnings	<u>272,521,000</u>	<u>229,545,000</u>
Total common stock and retained earnings	<u>\$305,885,000</u>	<u>\$262,909,000</u>
	<u><u>\$500,290,000</u></u>	<u><u>\$426,814,000</u></u>

Approved on behalf of the Board:
JOHN I. MINGAY, Director
EDWARD C. WOOD, Director

Consolidated Statement of Source and Disposition of Funds

for the years ended December 31, 1973 and 1972

Texaco Canada Limited and Subsidiary Companies

	1973	1972*
Source		
Net income.	\$ 55,367,000	\$ 42,439,000
Depreciation, depletion, and amortization (Note 2)	15,548,000	13,641,000
Provision for income taxes—deferred	3,643,000	2,013,000
Equity in undistributed earnings of non-subsidiary companies (Note 1)	(1,655,000)	(1,339,000)
Provided by operations	\$ 72,903,000	\$ 56,754,000
Additions to long-term debt (Note 3)	—	251,000
Book value of property, plant and equipment sold.	1,555,000	3,512,000
	<u>\$ 74,458,000</u>	<u>\$ 60,517,000</u>
Disposition		
**Capital expenditures	\$ 30,961,000	\$ 30,608,000
Reduction in long-term debt (Note 3)	12,425,000	9,798,000
Dividends paid—preferred stock	150,000	150,000
—common stock	12,241,000	11,076,000
Other (net).	146,000	659,000
	<u>\$ 55,923,000</u>	<u>\$ 52,291,000</u>
Added to Working Capital.	\$ 18,535,000	\$ 8,226,000
Working Capital		
At beginning of year	62,656,000	54,430,000
At end of year.	<u>\$ 81,191,000</u>	<u>\$ 62,656,000</u>
* Restated to reflect the extension of the equity method of accounting to include all significant corporate joint ventures owned less than 50%. (Note 1)		
**Capital expenditures		
Producing	\$ 4,922,000	\$ 4,967,000
Manufacturing	8,567,000	7,492,000
Marketing	17,256,000	17,990,000
Other	216,000	159,000
	<u>\$ 30,961,000</u>	<u>\$ 30,608,000</u>

See accompanying accounting policies and notes to consolidated financial statements.

Accounting Policies

Texaco Canada Limited and Subsidiary Companies

Principles of Consolidation

The accounts of Texaco Canada Limited and subsidiary companies are included in the consolidated financial statements. Intercompany accounts and transactions are eliminated.

United States dollar balances included in current liabilities have been translated to Canadian dollars at the rate of exchange at the end of each year. Long-term debt payable in United States dollars has been translated at rates of exchange in effect when the notes were issued.

Inventories

Inventories of crude and refined oil products and merchandise are valued at cost, determined on the first-in, first-out method, which in the aggregate was lower than market. Materials and supplies are valued at cost.

Investments and Advances

The Company uses the equity method of accounting for its investments in companies owned 50%, and effective January 1, 1973, this method was extended to include all significant corporate joint ventures owned less than 50%. Under this method, the Company's equity in earnings or losses of these companies is reflected currently in income rather than when realized through dividends. Investments in the companies accounted for by this method reflect the Company's equity in the underlying net assets of the companies.

Investments in other non-subsidiary companies are reported at cost, and the Company's interest in the net earnings of these companies is reflected in net income when realized through dividends.

Depreciation, Depletion, and Amortization

Depreciation, depletion, and amortization of property, plant and equipment related to exploration and producing activities are determined on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable oil and gas reserves. With respect to exploration activities, the Company capitalizes lease acquisition costs and costs related to the exploration for, and development of, oil and gas reserves.

As a result, finding and development costs are allocated to the periods in which revenue is recognized as the oil and gas reserves are produced and sold. For operations other than exploration and producing, depreciation is provided generally on the group plan with depreciation rates based upon estimated useful life applied to the cost of each class of property.

Deferred Income Taxes

Provision is made in the Companies' accounts to reflect the income tax effect applicable to transactions recorded in the Companies' financial statements in a reporting period different from the period in which they are reported for income tax purposes.

The deferred income taxes shown in the balance sheet represent the cumulative effect of net charges made against earnings to defer these income tax effects to appropriate future periods in the Companies' financial statements. This accounting policy allocates the income tax effect of transactions to the period in which such transactions are recorded for financial reporting purposes.

Pension Plan

The Company's group pension plan is available to substantially all employees. The cost of pension benefits is amortized over the estimated service of the employees involved. As at December 31, 1973, costs amounted to approximately \$10,200,000 on a present value basis, to be incurred in future years in respect of prior service.

Notes to Consolidated Financial Statements

Texaco Canada Limited and Subsidiary Companies

1. Investments and Advances

	1973	1972
Non-subsidiary companies accounted for:		
On equity basis	\$12,866,000	\$11,382,000
At cost	<u>1,963,000</u>	<u>2,043,000</u>
	\$14,829,000	\$13,425,000
Miscellaneous investments (at cost)		
Notes, mortgages and other long-term receivables	<u>16,549,000</u>	<u>15,647,000</u>
Total investments and advances	<u>\$31,378,000</u>	<u>\$29,072,000</u>

The financial statements for 1972 have been restated to reflect the extension of the equity method of accounting to companies owned less than 50% with an increase of \$213,000 in net income from that previously reported and an increase in consolidated retained earnings at January 1, 1972 of \$5,631,000.

2. Depletion

Depletion charged to income during 1973 totalled \$683,000 compared to \$499,000 in the previous year. The accumulated depletion in the Companies' accounts at December 31, 1973 was \$8,614,000.

3. Long-term Debt

The long-term debt of Texaco Canada Limited and its subsidiaries at December 31, 1973 and 1972 is as follows:

	1973	1972
Texaco Canada Limited		
Due to Affiliated company		
4% Notes, due U.S. \$1,000,000 annually to 1982 (1973 U.S. \$8,000,000; 1972 U.S. \$9,000,000) ..	\$ 8,621,000	\$ 9,699,000
7½% Note, due 1974 (U.S. \$10,000,000)	—	10,763,000
Regent Refining (Canada) Limited		
4¼% Sinking fund debentures, Series A, \$1,400,000 due in 1975	<u>1,400,000</u>	<u>1,800,000</u>
Other long-term obligations	<u>210,000</u>	<u>233,000</u>
	\$10,231,000	\$22,495,000
Less: Held for redemption for sinking fund requirements	<u>161,000</u>	<u>—</u>
	<u>\$10,070,000</u>	<u>\$22,495,000</u>

4. Expenses

Selling, general and administrative expenses for 1973 include amortization of \$370,000 premium paid on subsidiary companies' capital stock as compared to \$339,000 in 1972.

Fees and other remuneration paid to directors and officers were as follows:

	1973	1972
Number of directors	14	13
Number of directors who receive fees as directors	11	11
Aggregate of such fees	\$ 41,000	\$ 31,000
Number of officers	15	14
Aggregate remuneration	\$866,000	\$725,000
Number of officers who are also directors	3	2

Notes(continued)

5. Commitments and Contingent Liabilities

As at December 31, 1973, Texaco Canada Limited and subsidiary companies had non-cancellable leases expiring more than one year from such date covering service stations, office buildings, and other facilities. Minimum amounts payable under such commitments without reduction for related rental income are expected to average approximately \$6,300,000 annually for the next five years.

Under certain service station lease agreements, Texaco Canada Limited is contingently liable as guarantor for loans by third parties to the lessors which total \$29,041,000 as at December 31, 1973. Annual payments are due by the lessors from 1974 through 1978 of \$2,684,000, \$2,730,000, \$14,774,000, \$1,329,000 and \$1,393,000 respectively. The Company has an option to purchase these service stations for the outstanding amount of the contingent liability.

Under long-term agreements with pipeline companies in which stock interests are held, the Company guarantees specified revenue from crude and refined products shipped and in the event such companies are unable to meet debt obligations, Texaco Canada Limited may be required to advance funds against future transportation charges. The contingent liability arising from such agreements, together with certain liabilities on bank loans, discounted notes, etc., amounted to \$14,694,000 at December 31, 1973.

No losses are anticipated by reason of the above contingent obligations. In the opinion of the Company's general solicitor, while it is impossible to ascertain the ultimate legal and financial liability with respect to other contingent liabilities, including lawsuits, income taxes, claims, guarantees, etc., the aggregate amount of such liability is not materially important in relationship to the total consolidated assets of the Company and its subsidiaries.

Auditors' Report

To the Shareholders, Texaco Canada Limited:

We have examined the consolidated balance sheet of Texaco Canada Limited (a Canada Corporation) and subsidiary companies as of December 31, 1973, and the related consolidated statements of income and retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Texaco Canada Limited and subsidiary companies as of December 31, 1973, and the results of their operations and the source and disposition of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change (with which we concur) in accounting for all significant corporate joint ventures owned less than 50% referred to in Note 1 to the consolidated financial statements.

Toronto, Ontario
February 4, 1974.

Arthur Andersen & Co.,
Chartered Accountants

Ten Year Review

Texaco Canada Limited and Subsidiary Companies

Financial Summary

Financial Summary												
	Net Income (1) (2)				Dividends paid					Payments to Governments		
	Gross (1) Income		Per Common Share	Per Dollar of Gross Income	Common		Preferred		Capital Expenditures	Income and Operating Taxes	Taxes Collected From Consumers	Total Taxes
Year	Millions	Millions			Total Cash	Per Share	Total Cash	Per Share	Millions	Millions	Millions	Millions
1973	\$567.4	\$55.4	\$5.68	9.8¢	\$12.2	\$1.26	\$0.2	\$4.00	\$31.0	\$82.2	\$212.6	\$294.8
1972	463.4	42.4	4.35	9.2	11.1	1.14	.2	4.00	30.6	63.5	184.4	247.9
1971	406.3	31.6	3.24	7.8	9.1	.94	.2	4.00	29.0	55.2	170.0	225.2
1970	352.8	24.7	2.53	7.0	8.5	.88	.2	4.00	23.5	49.2	159.1	208.3
1969	331.2	23.3	2.39	7.0	8.0	.82	.2	4.00	26.3	42.9	152.3	195.2
1968	310.5	21.0	2.14	6.8	7.2	.74	.2	4.00	23.4	42.5	137.6	180.1
1967	284.5	17.4	1.78	6.1	6.1	.63	.2	4.00	22.6	34.1	112.0	146.1
1966	258.2	15.3	1.56	5.9	5.8	.60	.2	4.00	17.0	29.1	100.8	129.9
1965	238.5	13.6	1.38	5.7	5.2	.53	.2	4.00	20.4	21.2	92.3	113.5
1964	227.3	11.6	1.18	5.1	5.2	.53	.2	4.00	18.7	21.7	84.9	106.6

Financial Condition at Year End

Year	Common Shareholders' Equity (1)							
	Current Assets	Current Liabilities	Working Capital	Current Ratio	Total Assets (1)	Long-Term Debt	Net Book Value	Per Share at Year End
	Millions	Millions	Millions		Millions	Millions	Millions	
1973	\$212.2	\$131.0	\$81.2	1.62	\$500.3	\$10.1	\$305.9	\$31.48
1972	154.4	91.7	62.7	1.68	426.8	22.5	262.9	27.06
1971	144.7	90.3	54.4	1.60	401.7	32.0	231.7	23.85
1970	134.1	82.8	51.3	1.62	373.4	37.5	207.3	21.33
1969	125.0	73.7	51.3	1.70	349.4	40.5	191.2	19.68
1968	122.5	86.9	35.6	1.41	334.4	30.0	176.2	18.14
1967	105.2	68.2	37.0	1.54	305.6	34.5	162.8	16.75
1966	102.5	61.6	40.9	1.66	292.1	42.4	151.9	15.63
1965	97.9	59.3	38.6	1.65	279.6	45.0	142.5	14.67
1964	90.9	53.6	37.3	1.70	261.8	48.2	134.4	13.84

Operations Summary

Year	in thousands of barrels daily					Shares		Shareholders		Employees	
	Production of Crude Oil and Natural Gas Liquids		Refinery Runs	Refinery Crude Oil Capacity	Petroleum Product Sales	Common	Preferred	Number at Year End		Number at Year End	Payrolls and Benefits
	Gross	Net						Common	Preferred		
						Thousands	Thousands				Millions
1973	41.3	35.8	149.9	156.5	193.3	9,715	38	5,173	627	3,705	\$48.2
1972	32.0	27.9	146.9	144.0	176.4	9,715	38	5,318	679	3,705	44.7
1971	26.4	22.9	144.6	142.0	161.3	9,715	38	5,400	715	3,608	40.5
1970	23.6	20.6	139.5	142.0	149.3	9,715	38	5,732	752	3,531	36.6
1969	21.4	18.6	134.8	129.5	141.7	9,715	38	5,898	783	3,481	33.2
1968	19.0	16.5	132.6	127.5	134.2	9,715	38	5,349	828	3,441	30.1
1967	16.5	14.4	125.4	125.5	125.9	9,715	38	5,478	859	3,424	27.7
1966	14.1	12.4	113.5	124.5	115.3	9,715	38	4,581	912	3,347	25.1
1965	12.5	10.9	107.0	122.5	106.4	9,715	38	4,719	934	3,239	22.3
1964	11.2	9.8	104.9	120.5	102.3	9,715	38	4,955	1,086	3,233	21.1

(1) Restated to reflect the extension of the equity method of accounting to include all significant corporate joint ventures owned less than 50%.
 (2) Year 1969 includes extraordinary item of \$1,765,000 or \$0.18 per common share representing gain on sale of an office building and land.

Texaco Canada Operations



Texaco Products

AUTOMOTIVE

SKY CHIEF Gasoline
FIRE CHIEF Gasoline
HAVOLINE Super Premium motor oil
TEXACO Motor Oil
TEXACO Anti-Freeze Coolant
MARFAK lubricants
TEXAMATIC transmission lubricants
MULTIGEAR lubricants
MIXFAST Snowmobile Oil

AVIATION

AVJET jet fuels
SATO synthetic turbine oils
Aviation gasolines
Aircraft engine oils
Aircraft hydraulic oils
Aircraft greases

MARINE

Outboard motor oil
Marine bunker fuels
Marine lubricants

FUEL OILS

DIESEL CHIEF
CRYSTALITE kerosene
Home heating fuels
Industrial fuels

INDUSTRIAL

Construction and mining equipment lubricants
Farm lubricants
Forest and paper industry lubricants
Gas engine lubricants
REGAL turbine oil
RANDO hydraulic oil
Metalworking lubricants and coolants
Process Oils
Railway lubricants
Steel mill lubricants
Textile mill lubricants

PETROCHEMICALS

Benzene
Toluene
Xylene
Hexane
Feedstocks for chemical plants

Specialized solvents, such as:

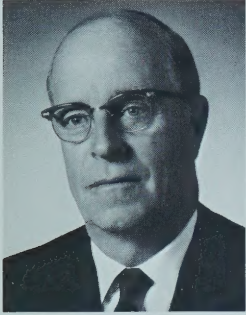
SOLVEX
AROTEX
PARATEX

QUALITY LINE SPECIALITIES

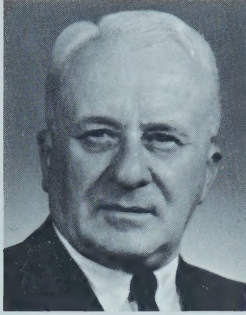
OTHER

Liquefied petroleum gases
Rust proof compounds

Directors of Texaco Canada Limited



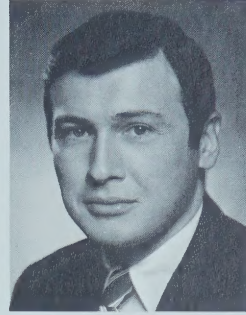
*D.F. Bentley,
Chairman of the Board,
Texaco Canada Limited,
Toronto.



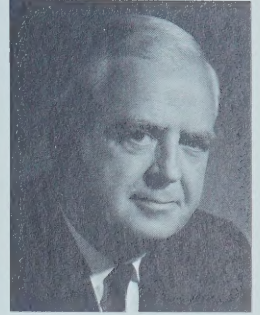
*Roland Bock,
President,
Bock & Tétreau Limitée,
Montreal.



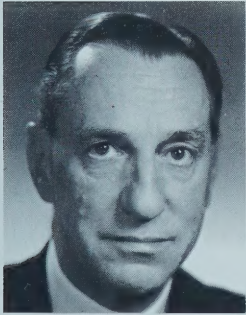
Stanley D. Clarke,
President,
Clarke Transportation
Canada Ltd.,
Montreal.



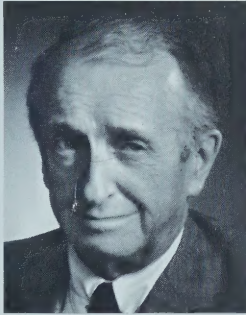
Alfred C. DeCrane, Jr.,
Vice-President,
Producing, Eastern Hemisphere,
Texaco Inc.,
New York.



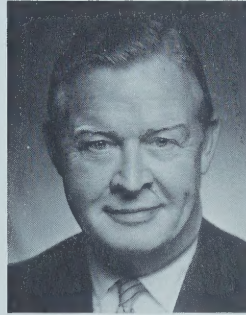
A.G. Farguharson,
Retired, Formerly President
and Chief Executive Officer,
Texaco Canada Limited,
Bainsville, Ontario.



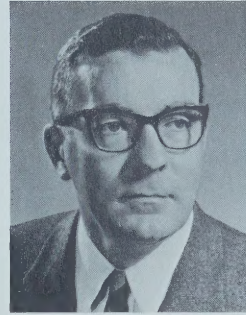
H. J. Lang,
Chairman and Chief
Executive Officer,
Canron Limited,
Montreal.



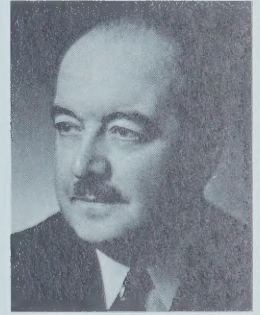
*L.J. McGowan,
Consultant,
Taylor Woodrow Group,
(London, U.K.),
Toronto.



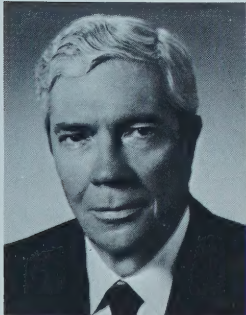
*John I. Mingay,
President and Chief
Executive Officer,
Texaco Canada Limited,
Toronto.



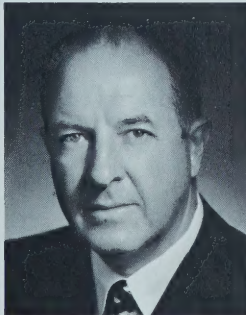
Paul Murdock,
President,
Murdock Lumber Inc.,
Chicoutimi, Quebec.



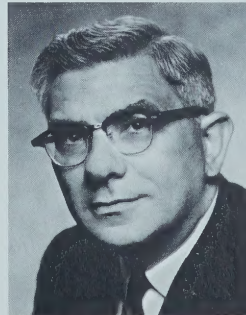
The Hon. Victor deB. Oland,
Chairman,
Lindwood Holdings Limited,
Halifax.



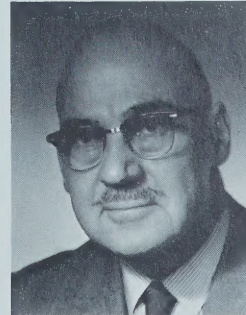
R. W. Sparks,
Vice-President,
(Western Canada),
Texaco Canada Limited,
Calgary.



D. G. Willmot,
Deputy Chairman and Director,
The Molson Companies Limited,
Toronto.



*Peter E. Wissel,
Vice-President,
Finance & Economics,
Texaco Inc.,
New York.



*Edward C. Wood,
President,
Edwood Ltd.,
Montreal.

*Member of the Executive Committee

**We
like
you to
come
back.**

